

Washington State Auditor's Office
Audit Report

Hood Canal School District
Mason County

Audit Period
September 1, 1995 through August 31, 1997

Report No. 59075

Issue Date
May 29, 1998



Washington _____
State Auditor

Brian Sonntag

Audit Summary

Hood Canal School District Mason County September 1, 1995 through August 31, 1997

ABOUT THE AUDIT

This report contains the results of our biennial independent audit of The Hood Canal School District for the period September 1, 1995, through August 31, 1997.

Our work focused on determining whether the District complied with state laws and regulations and federal grant requirements. It included the audit of the general purpose financial statements and the internal controls established by the District management. We also performed audit procedures on specific areas that had potential for abuse and misuse of public resources.

RESULTS

In the areas we examined, The Hood Canal School District complied with state laws and regulations and its own policies. In addition, the District adhered to requirements of federal financial assistance.

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Description of the District

Hood Canal School District Mason County September 1, 1995 through August 31, 1997

DESCRIPTION OF THE DISTRICT

The Hood Canal School District has an enrollment of approximately 480 students in grades pre-kindergarten through eighth grade. The District has 27 certificated and 26 classified staff members. Nearly three-fourths of the students are eligible for free or reduced-price meals. Grade 9-12 students from the District are primarily served by the neighboring Shelton School District. The operating budget is approximately \$2.8 million.

ELECTED OFFICIALS

The following officials served during the audit period:

Board of Directors:

Terry Ehrich
Victoria Pavel
Kathy Scott
Patricia Hart
Rick Wagner

Note: Terry Ehrich was replaced by Mary Hosteiter.

APPOINTED

Superintendent

John Meyer

Attorney

Craig W. Hanson

Note: John Meyer resigned February 1997. He was replaced by Robert McCarthy in July 1997. McCarthy was replaced by Larry Norwood in February 1998.

MAILING ADDRESS

District

North 111 Highway 106
Shelton WA 98584

Attorney

Hanson and Dionne
Westhill Office Park B-1
1700 Cooper Point Road
Olympia WA 98502

Audit Areas Examined

Hood Canal School District Mason County September 1, 1995 through August 31, 1997

In keeping with general auditing practices, we do not examine every portion of an entity's financial activities during each audit. The areas examined during an audit are determined by evaluating those which have the highest risk of loss to the entity as well as other factors. Certain areas are reviewed on a rotating basis over several years. The following represents the areas of District operations examined in this audit period:

FINANCIAL AREAS

In auditing the Hood Canal School District's general purpose financial statements, we reviewed the following areas:

- Overall presentation of financial statements
- Cash and investments
- Revenue
- Expenditures, including claims and payroll costs, and vendor payments

LEGAL COMPLIANCE

We audited the following areas for compliance with state and local laws and regulations:

- Staff mix
- Budget development and compliance
- Statutory debt limit
- Associated Student Body
- Open public meetings
- Competitive bidding
- Enrollment
- Transportation
- Conflict of interest

INTERNAL CONTROL CATEGORIES

We examined the following categories of the District's internal control structure:

- Cash receipting
- Disbursements/warrants
- Payroll

FEDERAL PROGRAMS

The audit of the federal grants adhered to the Single Audit Act of 1984. We audited the District's compliance with the following requirements of federally funded programs:

- Activities allowed or unallowed
- Allowable costs/cost principles
- Federal reporting requirements

Audit Overview

Hood Canal School District Mason County September 1, 1995 through August 31, 1997

AUDIT HISTORY

We audit The Hood Canal School District every two years. In the last 10 years there have been four findings. Three of these were in the 1989 audit year and one in the 1991 audit. No findings have been reported in the last two audits.

District management has taken steps in the past to make improvements and correct all areas of concern noted in prior findings. We believe this reflects the District's commitment to maintaining a financial system with sufficient internal controls.

CONCLUSIONS

In the areas we examined, The Hood Canal School District complied with state laws and regulations, its own policies and requirements of federal financial assistance. We also determined the District's financial statements were materially correct.

In particular, our testing showed the District complied with regulations that affect state funding to the District. This included student enrollment counts, certificated staff-mix records and transportation ridership counts.

District management has demonstrated an on-going effort to provide and maintain accountability, a strong financial system, and has responded promptly to concerns.

Federal Summary

Hood Canal School District Mason County September 1, 1995 through August 31, 1997

The results of our audit of the Hood Canal School District are summarized below in accordance with OMB Circular A-133.

- We issued an unqualified opinion on the District's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the District.
- We issued an unqualified opinion on the District's compliance with requirements applicable to its major federal programs.
- We reported no findings which are required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The District qualified as a low-risk auditee under OMB Circular A-133.
- The following was a major program during the period under audit:

<u>CFDA Number</u>	<u>Program Title</u>
84.041	PL 874 Impact Aid

Independent Auditor's Report On Compliance And Internal Control Over Financial Reporting In Accordance With *Government Auditing Standards*

**Hood Canal School District
Mason County
September 1, 1995 through August 31, 1997**

Board of Directors
Hood Canal School District
Shelton, Washington

We have audited the general purpose financial statements, as listed in the table of contents, of the Hood Canal School District, Mason County, Washington, as of and for the years ended August 31, 1997 and 1996, and have issued our report thereon dated March 31, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, we performed tests of District's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also performed additional test of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the District complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the District's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the District and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Directors, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 31, 1998

Independent Auditor's Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133

**Hood Canal School District
Mason County
September 1, 1995 through August 31, 1997**

Board of Directors
Hood Canal School District
Shelton, Washington

COMPLIANCE

We have audited the compliance of the Hood Canal School District, Mason County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the years ended August 31, 1997 and 1996. The District's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit in compliance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the years ended August 31, 1997 and 1996.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with

requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Directors, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 31, 1998

Independent Auditor's Report On Financial Statements

Hood Canal School District Mason County September 1, 1995 through August 31, 1997

Board of Directors
Hood Canal School District
Shelton, Washington

We have audited the accompanying financial statements of The Hood Canal School District, Mason County, Washington, as of and for the years ended August 31, 1997 and 1996. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the District prepares its financial statements on the cash basis of accounting prescribed by Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of The Hood Canal School District as of August 31, 1997 and 1996, and the revenues it received and expenditures it paid for the years then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 1998, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Expenditures of Federal Awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local*

Governments, and Non-Profit Organizations, and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 31, 1998

General Purpose Financial Statements

Hood Canal School District Mason County September 1, 1995 through August 31, 1997

General Purpose Financial Statements

Combined Balance Sheet - All Fund Types and Account Groups - 1997
Combined Balance Sheet - All Fund Types and Account Groups - 1996
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types and Expendable Trust Fund - 1997
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types and Expendable Trust Fund - 1996
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - All Governmental Fund Types - 1997
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - All Governmental Fund Types - 1996
Notes to Financial Statements - 1997 and 1996

Additional Information

Schedule of Expenditures of Federal Awards - 1997
Schedule of Expenditures of Federal Awards - 1996
Notes to Schedule of Expenditure of Federal Awards - 1997 and 1996